

# Cooperative Responses to Changing Market Structures

Presentation by Jean-Mari Peltier,  
President of the National Council of  
Farmer Cooperatives

# Farmer Cooperatives are major players:

- 28% of farm supply sales
- 29% of all commodities marketed

# ***Co-ops' Share of U. S. Farm Marketings, Selected Products***

| <b><u>Products marketed</u></b> | <b><u>1998</u></b>                 | <b><u>1999</u></b> | <b><u>2000</u></b> | <b><u>2001</u></b> | <b><u>2002*</u></b> |
|---------------------------------|------------------------------------|--------------------|--------------------|--------------------|---------------------|
|                                 | ---- Percent of cash receipts ---- |                    |                    |                    |                     |
| <b>Milk</b>                     | <b>83</b>                          | <b>83</b>          | <b>82</b>          | <b>83</b>          | <b>83</b>           |
| <b>Cotton / cottonseed</b>      | <b>43</b>                          | <b>27</b>          | <b>49</b>          | <b>42</b>          | <b>43</b>           |
| <b>Grains &amp; Oilseeds</b>    | <b>39</b>                          | <b>34</b>          | <b>44</b>          | <b>38</b>          | <b>38</b>           |
| <b>Fruits / vegetables</b>      | <b>19</b>                          | <b>18</b>          | <b>18</b>          | <b>19</b>          | <b>19</b>           |
| <b>Livestock / wool</b>         | <b>14</b>                          | <b>13</b>          | <b>12</b>          | <b>13</b>          | <b>13</b>           |
| <b>All Other</b>                | <b>12</b>                          | <b>12</b>          | <b>13</b>          | <b>12</b>          | <b>12</b>           |
| <b>All products</b>             | <b>29</b>                          | <b>26</b>          | <b>27</b>          | <b>28</b>          | <b>28</b>           |

***\* Estimated. Prior years from USDA***

# ***Co-ops' Share of Major U. S. Farm Production Expenses***

|                                    | <b><u>1998</u></b> | <b><u>1999</u></b>                | <b><u>2000</u></b> | <b><u>2001</u></b> | <b><u>2002*</u></b> |
|------------------------------------|--------------------|-----------------------------------|--------------------|--------------------|---------------------|
| <b><u>Farm production item</u></b> | ----               | % of farm production expenditures |                    |                    | ----                |
| <b>Fertilizer</b>                  | <b>45</b>          | <b>45</b>                         | <b>43</b>          | <b>45</b>          | <b>45</b>           |
| <b>Petroleum</b>                   | <b>50</b>          | <b>45</b>                         | <b>43</b>          | <b>46</b>          | <b>46</b>           |
| <b>Crop protectants</b>            | <b>34</b>          | <b>34</b>                         | <b>35</b>          | <b>34</b>          | <b>34</b>           |
| <b>Feed</b>                        | <b>21</b>          | <b>19</b>                         | <b>18</b>          | <b>15</b>          | <b>17</b>           |
| <b>Seed</b>                        | <b>10</b>          | <b>10</b>                         | <b>13</b>          | <b>13</b>          | <b>13</b>           |
| <b>Total of products</b>           | <b>29</b>          | <b>27</b>                         | <b>27</b>          | <b>26</b>          | <b>28</b>           |

***\* Estimated. Prior years from USDA***

# Why Cooperatives...

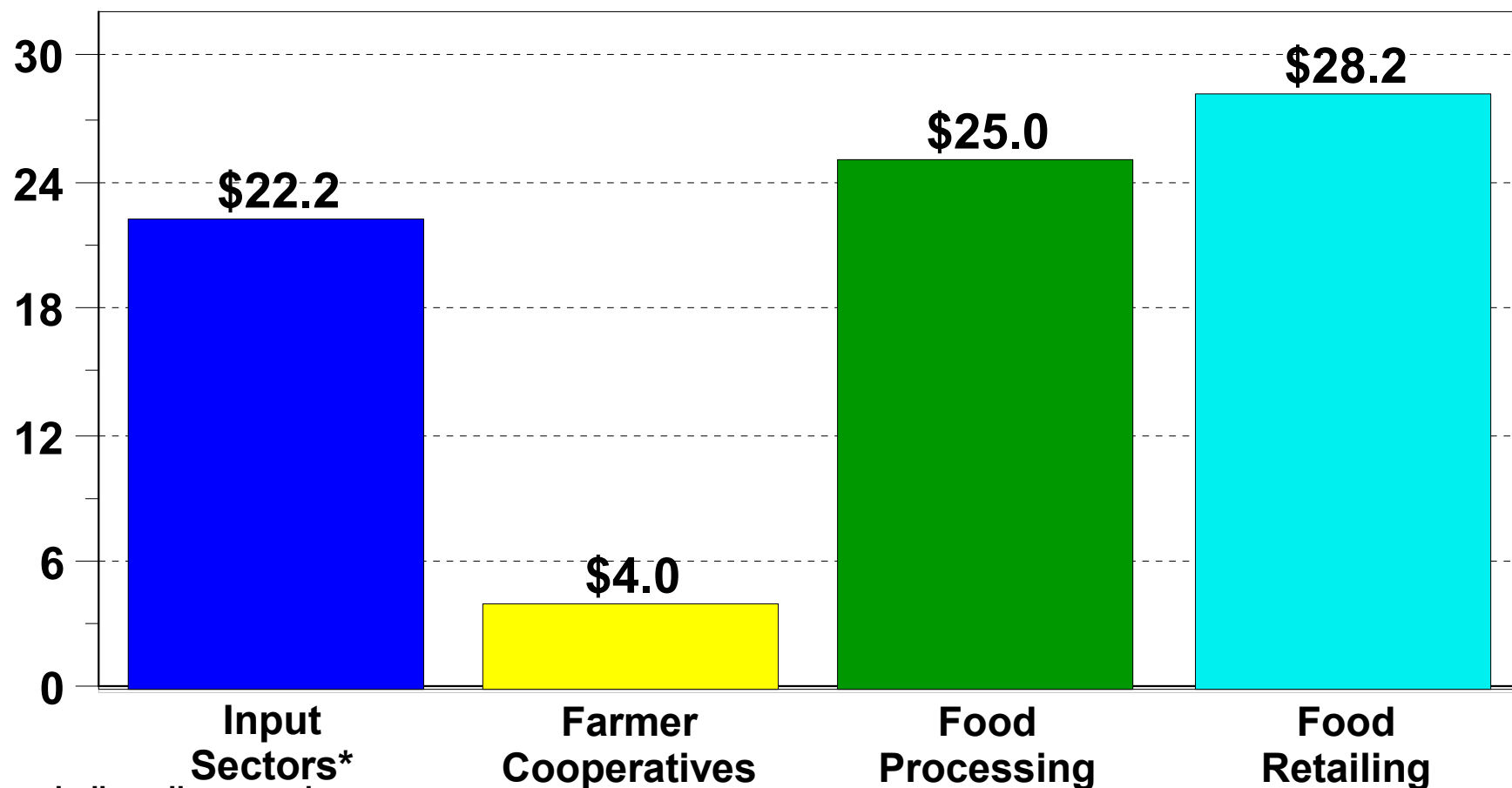
- Competitively priced inputs
- Maintain market access for commodities
- Capitalize on new value added opportunities

# But, challenges too...

- Competitors are larger, better capitalized, and more dominant in market influence

# Comparing the Largest 10 Farmer Cooperatives To the Largest 10 Firms in Other Segments Of The Food and Agriculture System

Average sales in billion dollars



\* excluding oil companies

# Significant market catalysts:

- U.S. demographics
- Technology
- Path of Globalization
- Regulatory Changes



# U.S. Demographics

- Population growth slowing
- Market growth focused on changing consumer preferences, not larger population
- Baby boomers nearing retirement

# Technology

- System integration, inventory management
- Regional companies able to coordinate national & global systems
- Scanning data -- mine exact info on consumer preferences
- Biotechnology enhances ability to build selected traits into production systems

# Path of Globalization

- Soviet Union
- Asian economic crisis
- Dollar valuation
- Doha Round
- Bilateral agreements
- WTO obligations

# Regulatory Challenges

- Environmental regulation
- Changing emphasis in Farm Bill programs
- Food Safety regulation
- Food Security concerns

# CONSOLIDATION

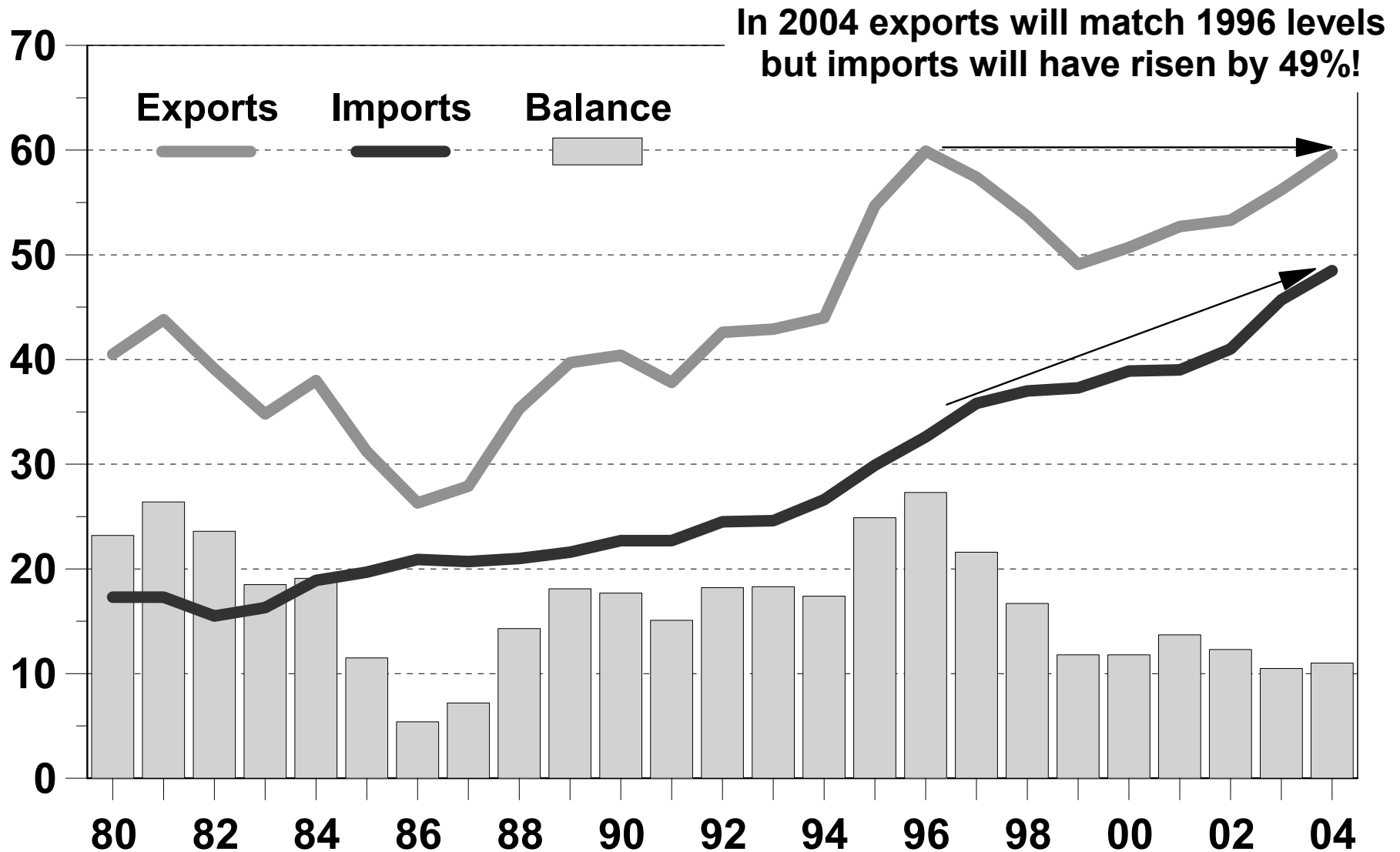
- Retail food sector: 10 firms
- Consolidation in food processing
- Farmers: 10% produce 2/3 ag production

# Ag Imports

- Up nearly 50% since 1996 (fruits & vegetables...)
- Soybeans -- Brazil & Argentina
- Countries of former Soviet Union
- Textiles and Cotton
- Fertilizer and competitiveness

# ***U.S. Agricultural Trade***

**Billion dollars per fiscal year**



*Farmer cooperatives have responded in a variety of ways --*

- Consolidation
- Owning complete value chains
- Joint Ventures
- Global partnerships; sourcing
- Limited Liability Corporations
- and others



# Consolidation

- Increases in market share
- Spreads costs over more units
- Meet needs of larger customers, along with traditional customers
- *Resulting decrease in number of cooperatives...*

# Owning Value Chains

- Examples: ConAgra, Farmland Industries
- Problems with profitability, capital needs & ability to support customer focus
  - ConAgra sold off production side
  - Farmland liquidated

# Joint Ventures & Alliances

- With other Cooperatives
  - Agrilience, LLC:Land O'Lakes, CHS and others
- With Non-cooperatives
  - GROWMARK w/ ADM in grain origination
  - CHS, Inc. with Cargill in flour milling

# Global Partners

- CHS, Inc.
  - Ventura Foods
    - Joint venture with Mitsui
- Michigan Blueberry Growers (MGB)
  - Global Berry Farms, Inc
    - MGB partnership with Hortifrut SA (Chile), and Naturipe Berry Growers
- Sunkist global sourcing
- *Foreign membership and global strategies raise significant questions in coop community*

# Conversion to Limited Liability Company

- South Dakota Soybean Processors & Iowa's Tall Corn Ethanol Cooperative use of processing capacity for non-members
- *Need for outside capital*
- *Non-member profits taxable at coop level & when distributed to members*

# “New Generation” Coops

- Well defined, often value-added focus
- Capital investment to join
- “Closed” membership
- Delivery rights have value

# Coops no more...

- Conversion to corporations
- Address concerns over foreign membership
- Capital acquisition
- Example: Calavo Growers

# Other options for Capital

- Issuing preferred stock (CHS)
- Limited partnerships wholly- owned by coop (such as Diamond Walnut)



# The Landscape is Changing

- Challenges for coops to keep pace...
  - avoid the unintended consequences of realigning to address business challenges
    - loss of coverage by statutes protecting cooperatives
    - loss of eligibility to borrow from CoBank
  - training directors to anticipate market opportunities
  - taxation issues, particularly dividend allocation
  - strengthening USDA programs
  - shifting attitudes toward farmers and conservation -- unique opportunities for coops?

Brings new meaning to Benjamin  
Franklin's words...

- We must all hang together  
....or assuredly we shall all hang  
separately!